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FOREIGN ACTIVITY

An Analysis of Foreign Participation in the U.S. Securities Markets
Produced by the SIA Research Department

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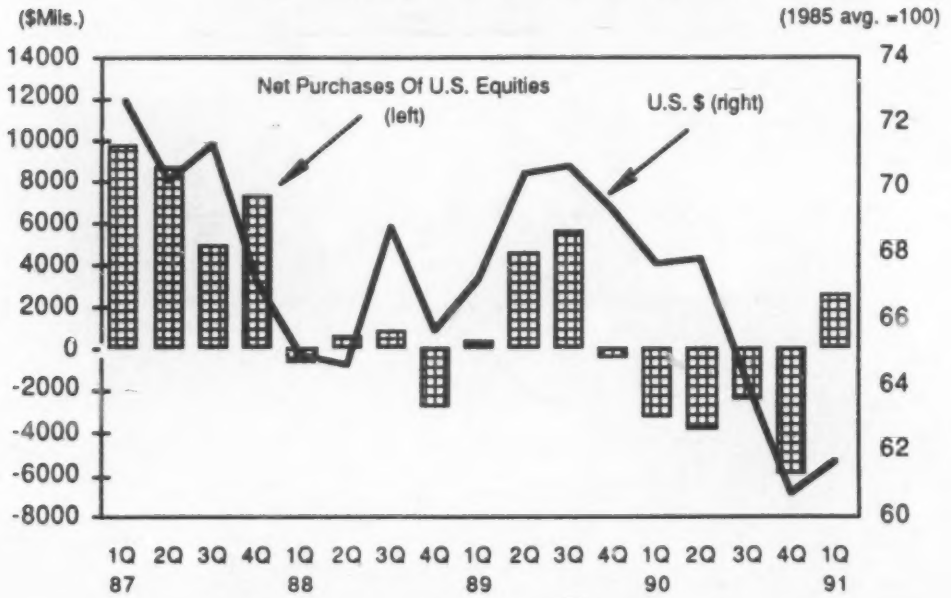
Here Comes The Sun

Foreign investor displeasure has been readily apparent -- five consecutive quarters of net sales of U.S. equities totalling $15.8 billion. But, the 1Q91 U.S. equity market rally, supported by declining interest rates, and combined with a rapidly rising dollar, brought $2.6 billion of new foreign money into U.S. equities. While the U.S. equity surge certainly caught the attention of the foreign investor, the chart below indicates that the foreign investor's posture, at least during the time period shown, has been strongly influenced by the direction of the U.S. currency.

The Declining U.S. Dollar Was A Key Ingredient In Foreign Investor Divestitures Of U.S. Equities



In the latter part of the 1980s, the foreign investor's decision to commit money to U.S. equities was made only after negotiating the U.S. version of an economic obstacle course. A declining dollar, rising budget deficits, downgrading of the debt

Securities Industry Association
120 Broadway, New York, NY 10271 • (212) 608-1500 • Fax: (212) 608-1604
1850 M Street, NW, Washington, DC 20036 • (202) 296-9410 • Fax: (202) 296-9775

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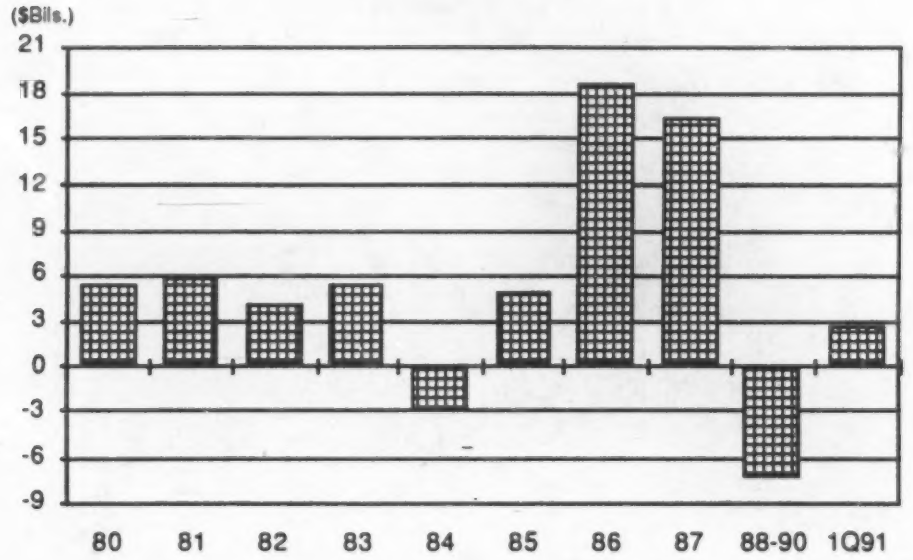
rating of many corporations, protectionist sentiment, unexciting U.S. equity prospects, and talk of a recession, sent foreign investors looking elsewhere. Yet, the vigor of the 1Q91 U.S. equity and dollar rallies seems, at least for the meantime, to have been strong enough to offset the doubts foreign investors had about U.S. equities in the past years.

Foreign investors were initially hesitant to take part in the U.S. equity rally as net sales in January 1991 totalled $807 million. The surprise pick up in the U.S. dollar, which began in February, provided the impetus for foreign purchases. Acquisitions in February and March rocketed to $1.08 billion and $2.37, respectively. Indeed, March's $2.37 billion was the largest monthly takedown since September 1989. Foreign investors may also have used 1Q91 to stem the sharp decline in their holdings of U.S. equities. These holdings, which peaked at the end of 3Q89 at $260 billion, were subsequently pared to $217.2 billion at end-1990, a 16.5% decrease. The rise in U.S. equity prices in 1Q91 helped push up holdings to $252.1 billion. Given evidence that investors have been stepping up their purchases of European equities, however, investors may still be well under-weighted in U.S. equities.

Foreign Net Activity In U.S. Equities



The foreign investor's return to the U.S. market is of some importance. In light of the spate of U.S. IPOs in 1Q91, which totalled $2.7 billion, foreign investors may have played a role in the market's 1Q91 rally by supplementing U.S. demand. In that U.S. companies will begin to re-equitize their balance sheets in the 1990s, this is a much welcome turnaround.

Foreign investors also made net purchases of U.S. Treasuries. Acquisitions, at about $900 million, were minimal. Yet, private investor acquisitions were $2.8 billion in 1Q91. While, this is well off the banner years of the mid to late 1980s, it does represent the largest private acquisitions of U.S. Treasuries since 4Q89. On the other hand, foreign official institutions were net sellers of U.S. Treasuries in 1Q91, likely a result of intervention intended to blunt the rapid ascent of the U.S. dollar.

Foreign Acquisitions Of U.S. Financial Assets

($Bils.)

	1Q91	*4Q90*	*Net Change*
Equities	2.6	(5.9)	8.5
Treasuries	0.9	11.3	(10.4)
-Public	*(1.8)*	*14.0*	*(15.8)*
-Private	*2.8*	*(2.7)*	*5.5*
Agencies	0.9	3.2	(2.3)
Corp. Bonds	2.8	3.5	(0.7)
Total Portfolio	7.2	12.1	(4.9)
Total Direct	2.0	4.5	(2.5)
Total All	9.2	16.6	7.4

Finally, we note the foreign direct investment only increased $2 billion in 1Q91. The smallest quarterly increase since 4Q83 is one more indication that the foreign rush to buy U.S. assets in the 1980s has since slowed to a trickle.

David G. Strongin
Director, International Finance